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The Province of Alberta

IN THE MATTER OF "THE NATURAL GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into Scheme to be adopted for Gathering, Processing and Transmission of Natural Gas in Turner Valley

G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

Session:

CALGARY, Alberta September 19th,1945.

VOLUME 41.

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I N D E X

VOLUME 41

19th September, 1945.

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VOLUME 41

19th September, 1945.
9.30 A.M. Session

ROBERT DONELLAN, having been recalled, re-examined:

MR. BLANCHARD: Mr. Chairman, yesterday at the time of adjournment I was dealing with the Teis appraisal applying Mr. Hill's unit cost.

MR. HARVIE: If I may interrupt again, Mr. Chairman, I have some replies to the questions asked yesterday and I would like to file them.

THE CHAIRMAN: You would like to file them first ?

MR. HARVIE: Yes, I think it would be of assistance to Mr. Blanchard and others.

A At the request of Mr. McDonald, in answering Mr. McDonald, I read some figures into the evidence accounting for the difference between the operating cost and the administration charges as they appeared on the original estimate, Exhibit 1 A, and in the final submissions 113 A. I am now filing the papers from which I got the figures.

MR. HARVIE: I would suggest it should be 113 (d).

STATEMENTS NOW PRODUCED AND REFERRED TO MARKED EXHIBIT 113 (d).

Q MR. HARVIE: Do you wish to comment on that at all Mr. Donellan ?

A No, that is simply a confirmation of the figures I read yesterday and I pointed out they might not be understandable by everybody and I would file a statement and I have done so and I have read the extracts. The next statement is in accordance with Mr. Steer's request. We have prepared an Exhibit showing book

values of the gas gathering lines and water system which it is proposed to turn over to the Utility Company. This statement shows the original cost together with the amount of depreciation which has been provided against this investment and the net book value.

MR. HARVIE: I would suggest that be Exhibit 117.

THE CHAIRMAN: It does not relate to any other Exhibit ?

MR. HARVIE: No it does not tie up at all.

STATEMENT PRODUCED AND REFERRED TO NOW MARKED EXHIBIT 117.

A I would like to make a comment in connection with that Exhibit. The conditions which govern the entries made for depreciation were that when the plant was constructed its length of life was problematical. Submission was made to the Income Tax authorities in view of the possible very short life of the plant that an allowance should be made of double the amount of normal depreciation and we submitted a claim to write it off 20% per annum and the reasonableness of this contention was conceded by the Tax Department and therefore the gas gathering lines are depreciated on a 20% basis. Actually the plant has proved to have a longer life than the pessimistic outlook at the commencement of the operations and consideration should be given to this point that book entries for tax purposes do not tend to reflect the actual operating depreciation which has occurred during the period referred to.

THE CHAIRMAN: Does it represent a recovery of capital to the extent shown in your depreciation reserves ?

A I would not go so far as to say that, but it does represent the corresponding amount as being charged against operations.

Q So that the Company would out of its earnings receive an operating charge ?

A The benefit of the excess depreciation but the point I wanted to make was that the amount charged is greater than normal operations.

Mr. Steer made an enquiry as to the yield which we could expect from 31.75 billions to be sent to the plant. I can only report, Mr. Steer, as to past production. Our engineer's advise that as part of the gas referred to, part of the 31.75 billions will be repressured dry gas. We have no experience to advise me as to the effect such operations will have on the yield to be obtained in the future. Our actual yield during the life of the plant, while we were manufacturing a twenty to twenty-six pound product has been .27 gallons per m.c.f.,to .38 gallons per m.c.f. When we were manufacturing forty-five pound products, it comes to .53 gallons.

Q That is on actual plant operations ?

A That is the actual recovery.

MR. CHAMBERS: What are those figures again please.

A On the twenty to twenty-six pound product I find in the early years we fluctuated and for a short period we were down into a sixteen pound product. The majority has been a twenty-six pound product. The average yield of our twenty to twenty-six pound product has been .27 gallons per m.c.f., from .27 to .38 gallons per m.c.f. That is for the period of 1936 to 1943, when we transferred to manufacturing a forty-five pound product, when the yield was . 53 gallons per m.c.f.

MR. STEER: Can you give us the relative selling prices of those two products ?

A The Turner Valley posted price of a twenty-six pound product is 2.28 a barrel and an average of a forty-five pound product 1.84.

CROSS-EXAMINED BY MR. STEER:

Q $1.84 per barrel ?

A Yes.

MR. CHAMBERS: What is the first figure ?

A $2.28.

Q MR. STEER: May I interject for a minute. It is unprofitable, much more unprofitable to manufacture the heavier product than the light ?

A Oh no because we have a much greater volume. We have almost double the volume at $1.84. We get .53 gallons per m.c.f. of the forty-five pound product against .27 of the twenty-six pound product.

Q I beg your pardon. What did you say about the repressured dry gas ?

A Well your question was, would I tell you what was the expected production out of that 31.75 billions to be contributed through the low pressure system. Now that gas is coming through from operations subsequent to the change in operating conditions than will be affected by the repressured gas. How much of that 31 billions will be repressured coming back nobody knows. What the effect of that repressured gas will be on the yield I am not able to find out.

Q Are you suggesting that some part of the 31 billions is counted twice ?

A No. I am suggesting that in the 31 billions there will be an effect of the repressured operations.

Q We have got according to your figures as I understand it, we have got around 50 billions of reserves in the field today ?

A Correct.

Q And that 50 billions of reserves is wet gas ?

A Correct.

Q And sooner or later all the gasoline content of that 50 billions is going to be taken out in your absorption plant ?

A That is so. That is what we are hoping to do.

MR. HARVIE: That amount of it that is actually produced.

A We estimate will be 31.75 through the low pressure.

DR. BOOMER: Part of that 50 billions will be re-typed The part that is repressured ?

A I do not know that I am prepared to go that far. My recollection was that the .581 was the gas in place today. Our people feel that the effect of repressuring may have an effect. What effect the repressuring operations may have on this gas in place they are not able to advise me as to the potential production out of the 31 billion.

MR. STEER: We were talking about recoverable reserves.

A That is right.

Q And that 50 billion is recoverable reserves ?

A That is right.

Q And are you going to suggest that repressuring will prevent some recovery of it ?

A No I am suggesting that the effect of repressuring gas recovery operations may have an effect on that 51.

Q To decrease or increase it ?

A I cannot say.

Q What effect would it possibly have ?

A You are getting into the realm of - I am a layman. I understand we have the natural gas.

Q Wait a minute. You have been discussing these matters with your own engineers I presume ?

A Correct.

Q And what you are going to tell us now is what they have told you.

A My interpretation of it. It is a technical matter and I am a layman.

Q We will forget that for a moment. There is not any doubt about this, that your evidence is that there is some 50 billions of recoverable wet gas in that area ?

A Correct.

Q At your hand ?

A Yes.

Q Now is there any dispute about the proposition that that 50 billion is going to go through your absorption plant and that the gas recovered from it, whether a failure to recover gas is due to repressuring or any other cause then I think perhaps the Board would like to have engineering evidence on that.

A Yes I think so.

MR. HARVIE: And I think there is some engineering evidence to some extent on it.

A The next question you asked Mr. Steer, would I give an explanation as to the difference between the 27.54 m.c.f. per year used in Exhibit 1A and 22.28 m.c.f. referred to on Page 8 of Exhibit 113 (b). I find that at the time of preparing Exhibit 1 (a), Mr. McCutchin was dealing with an allocation of reserves based on the 20.7% of share of market. That is supported by his Exhibit 4, which was filed, which showed the average market per day, the B. A. share being estimated at 20.7%. This gives an average of 7.69 m.c.f. per day. This is the amount used in Exhibit 1A. 27.54 billion cubic feet for the ten years. Later in the negotiations in January 1945 we received a revised estimate of the market requirements where they also determined the B. A. share was estimated to be 21.50%.

Applying this 21.5% to the revised figures shows an estimated throughput for B.A. for the 10 years of 22.289 billion cubic feet as used on page 8 of Volume 5. That is really additional information which developed. You also requested information as to how long it would take to process the 50.8 billion cubic feet referred to in Exhibit 51, and also as to the rate of decline, if possible to give you those figures annually and the daily rate of decline. Several factors enter into this matter, I found, which negatived any attempt to provide answers to the above questions. In the first place, I was advised that our submissions and estimates were based on the assumption of obtaining approval from the Conservation Board to operate on the allowables. This matter has not yet, I understand, been approved by the Board. And, secondly, the estimates of market requirements for gas were based on Gas Company estimates and calculating or including an assumption that the Ammonia Plant would not require gas after 1945. If this continues, then the repressuring volume will be reduced and the life of the field will be correspondingly curtailed. And, thirdly, the point of the efficient operation of the plant had to be considered under present conditions, with the capacity of approximately 2 billion feet per annum it would probably be satisfactory to operate successfully down to 50% of that capacity or a billion per annum. That is, under present day conditions. That may change. In view of those three conditions I felt it was not possible to supply the information requested with any degree of satisfaction for myself or for you, Mr.Steer. I think that cleans up the note I have for requests from yesterday.

THE CHAIRMAN: Have you anything, Mr. McDonald, arising out of that 113(D) that requires your questioning, or do you wish time to look at it?

MR.HARVIE: May I just check one figure,Mr. Chairman.

THE CHAIRMAN: Yes.

MR. McDONALD: No, Mr.Chairman, I would have to have some time to check it.

THE WITNESS: Mr. Harvie has just called my attention that my notes are wrong where I just refer to 2 billion per annum, that the correct figure, - and the 50%, 1 billion per annum, - the correct figure should be 20 million feet per day and 10 million feet per day respectively.

Q MR.HARVIE: Or the equivalent, approximately - 3½ billion per annum?

A Yes.

Q DR. BOOMER: In 113(D) there is the figure, on the second page, of $6,480.00 after which there is no explanation.

A Those were two items where there should have been ditto marks there. We were working until 11.30, and were a little tired. Those figures were taken directly from Exhibit 1A. You will also find in the column there 32,220. That item from my recollection is for gas gathering and the other for compressor station.

Q MR. HARVIE: But they are both the same item, relating to operating expenses as in the statement?

A The $32,220.00 is the cost of the compressor station asshown in Exhibit 1A, and the $6,480.00 is the operating costs of the high pressure line to the scrubbing plant.

Q MR. HARVIE: I think that is all with regard to the questions asked.

.....

CROSS-EXAMINATION BY MR. BLANCHARD

Q As I was saying, Mr. Chairman, I was dealing with the Teis appraisal, but I find Mr. Stevens-Guille has prepared a statement applying Mr. Hill's unit cost to the Teis appraisal and so I won't deal with it any further at this moment beyond this, that any figures, that is, unit costs, that may be accepted by the Board with respect to installation costs of pipe would apply equally to the water system?

A Yes.

Q You have applied Mr. Teis' principles?

A Yes, I adopted the principles of Mr.Teis to the water system.

Q Now, I just want to deal for a moment with your evidence yesterday relating to the rate of return, and I am referring now to the annual report of the British American Oil Company Limited, Exhibit 116.

A I am sorry, they were not available in Calgary, enough copies, and I telegraphed for an additional 25 copies to Toronto.

Q Have you a copy?

A No, I gave mine as an exhibit yesterday. Could I have your copy?

Q Perhaps I had better give the Board a copy?

A An additional 25 copies will be coming in today's air mail.

MR. HARVIE: I have one copy I will give to Mr. Donellan.

Q MR. BLANCHARD: Now you said yesterday that your Company made 11% on the shareholders' investment in 1944?

A Yes.

Q And 14% on the fixed assets?

A Approximately, yes.

Q Now then, the total shareholders' equity as shown in your report is $27,691,784.00?

A Correct.

Q On which you earn 11% after tax?

A Yes.

Q Now then, you have issued some $10,500,000.00 of debentures?

A Correct.

Q And what rate of interest has the Company been paying onthose debentures?

A Paying a sliding scale from 2½ to 3¼%.

Q Paying a sliding scale from 2½ to 3¼%?

A Yes.

Q Now, if instead of issuing those debentures the Company had sold shares to the extent of that 10 million.....is it $10,500,000.00.

A Yes, $10,500,000.00.

Q Yes. Then the capital employed would be increased? That is represented by the shares?

A Yes.

Q Would be increased to $38,191,784.00?

A Yes.

Q And what would be the effect of that on the rate of return?

A The effect of that on the rate of return for the year 1944 would have been something like, the Company would have earned 8.88%.

Q Are you sure of that?

A Yes, I worked the figures out.

Q You are sure of that?

A Over the seven year period from 1938to 1944 the over-all average rate of return would have been 9.3%.

Q Just a moment. Are you taking into account that you would have to pay tax on the income relating to those $10,500,000.00 worth of debentures if they were in the form of shares and not in debentures?

A No.

Q You are not?

A No, I was not.

Q Then I would like you to re-compute your figures. I suggest to you that the rate of return is under 8%.

MR. HARVIE: Is under what?

MR.BLANCHARD: Under 8%.

A Subject to verification, I will have a statement confirming it tomorrow, my impression is over the 8 years after making that adjustment, it will be 9%.

Q I am referring to 1944?

A 1944.

Q Yes, or at the present moment?

A It would be on the border line of 8%.

Q What I have in mind is that in presenting the figures you have just presented to the Board, you did not deduct a tax at all?

A No, I did not deduct the tax at all.

Q Youdid not deduct the tax at all?

A No. It would be around that.

Q Those debentures are serial debentures, you pay off so much each year do you?

A Not all of them. The majority of them.

Q That being the case, do you know of any reason why the British American Oil Company Limited should not have accepted as part of the consideration for the transfer of the assets to the

Utility Company, and debentures or bonds?

A Yes. I believe, well should not accept debentures, because the British American Oil Company, as I just point out, would have to pay tax on the debentures. While the debenture interest is exclusive of tax to the Utility, it is liable to tax in the hands of the Company.

Q Assuming you are going to find that the rate of return on the capital employed of your Company based on all the investments being in the form of shares is under 8%, you are still basing that on the book value of fixed assets partially?

A Partially, yes.

Q Yes. That is to the extent of some $44,000,000.00?

A To the extent of $22,000,000.00.

Q Pardon?

A To the extent of $22,000,000.00.

Q Yes, to the extent of $22,000,000.00.. Depreciation takes care of the twenty-two million?

A Yes.

Q Now can you suggest any other investment in which your Company's funds can be safely invested at 9½% net?

A No, because my company is not an investment company. My company is a company which is refining and distributing petroleum products and oils.

(Go to page 3147)

Q Do you know of any company that is paying a dividend . . . .

MR. HARVIE: Possibly the Union Oil, they have just done it.

Q MR. BLANCHARD: I am asking the witness if he knows of a company.

A No, I do not know.

Q Now I want to go to your statement, 113(C), that is your Operating Costs statement for the 7 months ending July 31st, 1945. I want to deal with the relationship of your Administration Costs to your Operating Costs. Now if you take your gas gathering system as an example, that would be your second column headed 01. That is your account number, 01.

A Yes.

Q Your total Operating Costs, direct Operating Costs for that gas gathering system were $3,540.95.

A Yes.

Q Is that right?

A Correct.

Q Correct. Your office expense was $408.35?

A Yes.

Q Your general expense, $352.67?

A Correct.

Q And your general administration, $915.87?

A Correct.

Q Which makes a total of $1,676.89?

A Yes.

Q And that overhead cost is 47 per cent of your direct cost, is that correct, approximately?

A Our costs are $3,500 and the other items are seventeen, yes that is approximately correct.

Q Yes, 47 per cent. Now we have been comparing the unit cost supplied by Mr. Hill to construction and I just want

for a moment to compare the costs of administration, that is the overhead costs of Madison with yours, in relation to the operating costs. Now referring to Submission 9-A, 1945, Madison's Submission 9-A, I have forgotten the Exhibit number. It is Schedule 9-A, 1945.

MR. CHAMBERS: Exhibit 79.

Q MR. BLANCHARD: I find there that the . . . . .

MR. HARVIE: Referring to what, Mr. Blanchard?

MR. BLANCHARD: 9-A,1945.

DR. BOOMER: You do not know the Exhibit number?

MR. CHAMBERS: Exhibit 79.

Q MR. BLANCHARD: I am again taking just the gathering lines as an example and I find, and perhaps you might assume this to be correct for the moment, that the overhead of Madison is 13 per cent of its operating costs. Now can you give any explanation of that wide disparity?

A Well I would have to have information as to what is included in the administration of both items. Some companies, and I know for a fact that Madison, have got a much larger organization in Calgary than our organization. Therefore their direct charges, - you have included as overhead a proportion of the office expense, general expense together with administration. You have grouped them all as being overhead. I do not know but I would not be surprised if Madison's direct charges for their local office expense and their general expense are in as direct charges because they operate under different conditions than what we do. Without having some information as to what is in the Madison statement, I could not tell you.

Q I would like to know what items come in under the heading of your General Expense there.

A I have a summary of that. I am sorry I do not seem to have brought it with me, but going from memory it consists of telephone and telegraph charges. $200. I think I can get this at the recess for you and travelling expenses. If you will leave it to recess, I will telephone. They gave it to me last night but I did not bring it with me.

Q Thank you, Mr. Donellan.

A It consists of that type of item, telephone and telegraph and travelling expenses and expenses of the Field Manager down at the plant. Those are the two outstanding ones.

Q Perhaps I can suggest one difference and that is that Madison is not being charged by its parent company, Royalite, with any part of its Head Office expense.

A Well I do not know. I am not surprised to learn of that. As I say, they have a much bigger organization in Calgary than we have.

Q Possibly they think that the services that might be performed by their Head Office management and so on is a function of service to the shareholders of Royalite.

A It would be quite a reasonable assumption, because they operate considerably more subsidiary companies and there is not the same direct connection with their Toronto office with their local operations.

Q I am just wondering to what extent these overhead charges, at least administration charges of $15,000 a year or your charge for general administration as part of your capital costs, to what extent that should be regarded as services by your Head Office to the shareholders of the British American Oil Company Limited rather than to the subsidiary company.

A Well I will just run over what is in the general administration expense.

Q Yes, you had better do that.

A Taking the expenses that we have, we have our Head Office accounting department.

Q Beg pardon?

A There is the expense of the Head Office accounting department and a proportion of that, I am the chief accountant and my salary goes to the Head Office account. This is one of my responsibilities to the utility.

Q You have an accountant here, though, haven't you?

A We have an accountant here, Mr. Cull.

Q Mr. Cull?

A Mr. Cull. He does the routine work which is under my supervision as chief accountant.

Q Just a moment, Mr. Cull's wages and his expenses do not form part of this overhead?

A No, they are a direct charge. In the Head Office accounting department, there is a Chief Accountant, the Internal Auditor and the Senior Assistant who looks after this work and part of the time the Head Office accounting.

Q Then we will come back to that in a moment.

A Then there is the purchasing department. The Madison have their own here, I understand. We handle it through Toronto. Then there is the legal expense and while we have our own counsel here, the company's legal department is in Toronto. And they have them to consult. Then there is the Paymaster's Department, which accepts the responsibility of looking after the taxation requirements and then in addition to that there is the General Manager. I have outlined how we are proposing to allocate these.

Q And Directors' fees, do they come in as part of that?

A Directors' fees come in as part of the general management, yes.

Q And the utility will be paying part of the Directors' fees?

A An infinitesimal part, yes.

Q Then you are not going to proceed on the basis of what is actual, on the basis of the charges for work actually done. You are simply taking a lump sum as representing a proportion of the British American Oil Company Limited's costs and you are taking some proportion of those and charging them to the Utility, is that right?

A No. What I was prepared to do and what we intended to do was that when making these estimates, we estimated a proportion of the administration expense would be taken out of admittedly an approximation of these various services and I would justify to the Board's auditor at the end of the year that 15 per cent had been justified. If it was less, I would only put in the lesser amount and if it was higher, I would expect to put in the higher amount. Now in connection with that, if you will excuse me a moment - the administration charges which I have applied on this statement are on the exact basis of our submission of $15,000 per annum. If this was the year end closing, I would submit to the Board's auditor at the moment, at the 31st of July, rather, the total amount of administration charges applicable to this operation as $9,766. Now our company is prepared, if the impression has got around that we want to make a flat $15,000, we will accept the $15,000 but we are quite prepared to say that we will take the actual adjustment of that figure after submission of proof to the Board's auditor.

Q Does your overhead, and I am dealing now with your Capital Costs, does your overhead include engineering design?

A Yes. At least, I may have to qualify that to some extent, that it includes consultation with our engineers, covering

design.

Q I think I will come back to that in a few minutes, then, Mr. Donellan. Now I want to deal for a moment with the allocation of costs in connection with the gas gathering system. You propose that 15 per cent be charged to the British American Oil Company Limited, that is 15 per cent of your gathering costs.

A Correct.

Q And I suggested that whatever is the proper allocation should apply also to your low pressure compressing plant?

A Yes, that was the suggestion.

Q That was the suggestion and do you disagree with that?

A Yes.

(Go to page 3153)

Q Why ?

A Because the low pressure compressor station was part of the new operation. If the conservation, the question of conservation of gas had not arisen we should certainly not have built the low pressure compressor station. We would have operated the field and while as events have turned out there are 18 billion cubic feet of gas available there might be, - nobody knows, we were not faced with the problem, but as an engineering practice that might have been increased, that volume to 30 or 40 billion or an unknown quantity and it was, that low pressure compressor station was incidental to the new operation and not part of the absorption plant.

Q Although it is necessary, it is a necessary extension to bring the gas into your absorption plant ?

A To bring the low pressure gas into the absorption plant, yes.

Q Now is it your suggestion that the 85% - -

MR. HARVIE: If I might interrupt there.

Q MR. HARVIE: Mr. Donellan, that is on the basis of the 150 pound working pressure at the plant ?

A I thought I covered that, that is what I had in mind when I said we reduced the pressure and increased from 18 billion to 30 or 40 billion or some unknown quantity.

Q What you mean by that is that if this new installation had not been installed really the working pressure of the plant would have been reduced so that the greater portion of this 30 billion could have been put through without increasing the compressor cost ?

A That is the impression I meant to convey, that was the natural development, the Company would not close the plant down with 150 pound pressure when with a nominal expense it

could reduce that pressure and recover a considerably greater portion or volume of gas.

Q DR. BOOMER: You mean that 18 billion estimate is based upon operating that plant at 150 pounds ?

A Yes, 150 pounds.

Q Was that Mr. McCutchin's evidence ?

A I have a reference from Mr. McCutchin's statement of 250 pounds, no, that is the low pressure, 250 pounds bottom hole pressure.

Q MR. BLANCHARD: Now have you any suggestions to make as to how the 85% of the cost of delivering gas to market should be allocated ?

A No. That we felt right along was not our responsibility, that we were only interested - - -

Q Well would you suggest that the purchasers of the residue gas pay for gas which is flared ?

A I am not going to make any such suggestion, no, I am not going to make that suggestion, - did you say that I would suggest that ?

Q Yes.

A And I say "No".

Q Well they get no benefit from that which is flared ?

A No, absolutely.

Q Who has had the benefit of any gas which is flared ?

A That is flared, nobody gets the benefit of any gas which is flared unless there is a change in operation which has now brought a use of the flared gas.

Q The gas has gone through the absorption plant ?

A Yes.

Q The absorption plant gets a benefit ?

A Somebody has had the benefit of the natural gasoline extracted

from the wet gas.

Q Yes ?

A But nobody has had any benefit from the flared gas.

Q You do not propose that the British American Oil Company or the Utilities should pay part of that cost ?

A Oh no. I do not think the Utility is concerned with paying any part of anything. I think the Utility is only concerned with doing the service for which it was formed and receiving payment for that service. The allocation of the cost of that service is the Board's responsibility and not the Utility's.

Q Yes, but you might be able to help us with some suggestions.

A Yes, and our suggestion was restricted to the amount which we submitted was a fair charge in respect to the quantity used in our plant and the service performed in respect to the G.O.P. gas.

Q Well your 15% really represents the shrinkage ?

A And fuel burned.

Q And fuel burned, and that really represents the gas that is lost between the separator at the well and the scrubbing plant by reason of the absorption plant operation ?

A Well I think it largely represents the volume of the liquid content of the gas.

Q Yes ?

A It is the extraction of the liquid content.

Q Exactly, and there is 15% less gas left ?

A In volume, yes.

Q Now you do not propose paying anything for the service rendered by the Utility for bringing that gas there so that you can extract gasoline from it ?

A We are talking now from the point of view of British American

Oil Company ?

Q Yes, the absorption plant operation.

A No, I am proposing that 15% of that collection charge is a fair charge because the absorption plant operation has consumed 15% of the volume which was brought.

Q You are consuming 15% of the gas ?

A Yes. And I am volunteering to pay 15% of the charges for carrying that gas.

Q Yes, but you pay nothing for the service, apart from that ?

A No.

Q Now then what about gas returned to the formation, have you any suggestions to make about where the burden of gathering that gas should be, should lie ?

A I have not.

Q What ?

A I have not. It is not part of our submission. It is not part of the submission in connection with the utility operation, from the general point of view.

Q Do you think the British American Oil Company Limited should bear any part of that cost ?

A No sir.

Q Then drilling fuel and fuel returned to the leases, how is that, how would you suggest the cost of gathering that be dealt with or paid for ?

A The people who are getting the benefit from it.

Q The people who are getting the benefit from it ?

A Yes.

Q So that you do not propose that the absorption plant operation should bear any part of the cost of gas which is flared at your plant ?

A No.

Q By the way your contracts, I understand from evidence given the other day, provide, that is your contracts with producers, provide that you gather the gas, take the gas to the absorption plant and process it and you give the producer 20% of the gasoline ?

A Of the value of the product.

Q Of the value of the products and then you retain 50% of the residue gas for any processing ?

A Well we, -the producer has the right to take the gas back from the plant if he wants to, but if the gas is sold we retain 50% of the proceeds of the sale and pass 50% on to the producer.

Q Now that was the effect of the contracts which you had ?

A Correct.

Q Prior to the installation of the low pressure compressor system?

A Yes.

Q It applied all through those years to the high pressure system ?

A Correct.

Q That is correct ?

A That is correct.

Q So that the Company was gathering all this gas and was not charging the producer for it ?

A I think so.

Q Taking it to the absorption plant and processing it and all those costs fell on the absorption plant operations ?

A Yes.

Q Now as I understand it you propose that all those costs, at least 85% of those costs, should fall on some one else and do you still propose to retain one-half of the residue gas ?

A Those are contracts which are still in effect and until they

are changed they should be respected.

Q I see, but you are going to put all the cost of that operation which is a part of the consideration for getting the gas, on somebody else ?

A Of course my point of view is that that was the operation until 1944 and after the conservation procedure was put into effect we have now got a totally changed state of conditions and the costs of the conservation procedure should be borne by the people who get the benefit of it, if there are benefits.

THE CHAIRMAN: Quite right, that is going back to last year but frankly I am astonished at the evidence you are giving in the light of the negotiations which the Board had with your Company last year. All right, go on.

Q MR. BLANCHARD: All right, now then on Page D of Exhibit 113 (b) you suggest the high pressure compresor cost should be divided 42% to the residue market and 58% to the repressuring of gas ?

A Yes.

Q That is on a volume basis ?

A Yes.

Q Have you worked that out on a horse power basis at all ?

A No.

Q That could be done I suppose ?

A Yes.

Q Would it be much trouble for you to do that ?

A I cannot tell off-hand, I might require assistance and I will see if I can put somebody on it.

Q Now in answering Mr. McDonald yesterday I think you said that the high pressure compressor station was of a capacity just sufficient to meet the peak load, the peak market load, was

that your evidence ?

A Did I say that yesterday, I do not recall the point coming up, the horse power capacity of the high pressure compressor station was sufficient, would you mind repeating that again ?

Q Well I thought in your answer to Mr. McDonald yesterday that you said that the capacity of the high pressure compressor station was just sufficient to meet the peak load demand of the market ?

A I do not recall saying so.

Q That is my impression.

A Yes.

Q Is that a fact ?

A I am not competent to say, I do not know.

Q You are not suggesting that the high pressure compressors were put in purely to meet the residue market, - it had a dual purpose ?

A Yes, the high pressure compressor station meets the requirements for supplying gas to market and for repressuring.

Q Now referring again to this question of who is to bear the cost of repressuring, you do not feel disposed to make any recommendation in that connection ?

A No.

Q But do you know whether there is any assurance that the citizens of Calgary for instance, the ultimate consumers that we have now will ever get that gas ?

A I have no information on which to base an answer to that question.

Q You do not know ?

A No.

Q In asking the Board for a ten year write off you are not suggesting that you won't be carrying on operations after the ten years?

A I know that in the initial stage in consultation with the staff on this project we received information from the engineering department that there was a reasonable, or I think the expression was a reasonable expectation of operating for seven years. That there was a good sporting chance of operating for a longer period. That is why the initial submission was based on a seven year depreciation. Then it was felt that to meet the requirements we could afford to gamble on another three years. Whether it will be longer than that I do not know.

Q THE CHAIRMAN: Is it not the fact that the Board would not listen to your project unless you took a ten year write-off? Is that not the fact. You may have had discussions with your engineers but is it not a fact that you were told the Board would not entertain your proposal unless you moved from a seven year to a ten year write-off? Is that not the case?

A I do not know but there are letters and correspondence on file I suppose.

Q MR. BLANCHARD: Now, Mr. Donellan, you have seen Table #8 Revised, submitted by the Madison Natural Gas Company, that is the estimated wet gas available sharing position?

A I do not think I have, but I have a general idea of what is involved.

Q Well I find that in this Table your Company will deliver or is expected to deliver 45,519,000,000 feet of gas during the life of the field and that according to this Table which is based on the evidence as to reserves as understood, you will be delivering gas down to 1974. Under this market sharing plan.

That is 90 years from now. You do not agree with that ?

A Well I know we are contemplating on a ten year -

Q 29 years ?

A 29 years. It has never been suggested to my knowledge of any longer period than the ten years.

Q No.

A Madison are submitting a statement there which showed a contemplated 30 year life for the plant.

Q But if it is a fact that you were going eventually to deliver between 45 and 46 billion cubic feet of gas, if that is a fact then the life of this field and your operations would probably carry over for a period of 25 years or more ?

A Well I can only say in endeavouring to get that information for Mr. Steer last night that our estimates of the use of the reserves of 50 billion feet of gas expires at the end of the eighth year. From papers I got, I was so doubtful that I was not prepared to use them, so contradictory to the 30 years you are talking about.

Q Do you expect to deliver to market 45 billion cubic feet of gas inside of 7 or 10 years under this market sharing scheme ?

MR. HARVIE: Are you suggesting that the B. A. have agreed to this market sharing scheme ?

MR. BLANCHARD: No I would like to find out whether Mr. Donellan has any other suggestions than those contained in M-2. Nothing else has been suggested so far as I know.

MR. CHAMBERS: Table #8, Exhibit 47, part of Exhibit 47 is it not.

MR. BLANCHARD: It is M-2 Revised.

MR. CHAMBERS: That is Exhibit 47.

A Now I know that gas could be sold to the market and that our

people are working on 22.89 billion feet and in view of the hazards I read in to Mr. Steer this morning of the net allowance and the estimate and capacity of the plant, that takes us up to 1954, but I have never heard 30 years anywhere.

Q MR. BLANCHARD: Now in your submission 113 (b), Page 8, you allocated the cost for delivering gas through your high pressure line, that is part of the cost to be borne by the G. & O. P. ?

A Correct.

Q And you base your cost on a total delivery by your Company and by G. & O. P.?

A Yes.

Q Both ?

A Correct.

Q At 28,964,000,000 cubic feet ?

A Yes.

Q Now is that the limit of your estimate of the gas that will be carried through that high pressure line ?

A As far as I am aware, yes.

Q Eh ?

A That is that figure. I did not recognize it until I compared it now. That is the figure I was referring to as 22.89. That is the estimate of the gas we sold to market during the 10 years ending 1954.

Q Oh yes, during 10 years. I am not speaking of 10 years. I am speaking of the life of the field. Now my suggestion to you is that during the life of this field there will have been delivered to market by you the 45,519,000,000 plus from G. & O.P.19,663,000,000 which makes a total of about 65 billions cubic feet of gas ?

A Yes.

Q Now then when you fix the cost of taking gas through this high pressure line why didn't you fix it on the basis of all the gas that will go through ?

A I based it on our engineer's estimate of what was going through in the 10 years, not on the estimate of what somebody else thought would go through during the life of the plant. Our own engineers have submitted in evidence that there is a total reserve of 51.85 billion.

Q Which you can very easily see what the result is in the cost of delivering that gas over a short period of time ?

A Oh yes.

Q It makes a high cost for the next 10 years. That is correct ?

A That is correct.

Q And I see that in that same Exhibit you make no allowance for delivery of any gas from G. & O. P. after 1949 ?

A No.

Q Is that correct. Where do you get that ?

A Engineers' estimates. They estimated it was only able to carry that G. & O. P. over a 5 year period.

Q Well I find in Table #8 again that gas will be delivered from the G. & O. P. down to 1966. Do you disagree with that ?

A That is a submission made by another Company. I am only dealing with our own submission.

Q Are you making a submission ?

A On another Company ?

Q On the market sharing position.

A I believe one has already been made.

Q Well as to the length of time over which gas can be delivered, and what your share position will be from year to year. How

much you will deliver to market from year to year. Well, Mr. Donellan, I see that you are charging equivalent - assume your figures on Page 8 to be correct and assuming that no gas will be delivered from G. & O. P. after 1949, I see that you are charging them on an equal basis with yours ?

A Yes, because there was an interim arrangement made pending decision by this Board, an interim arrangement. I believe it was confirmed by an order that we would pay at the rate of 6/10 of a cent or a minimum payment of one thousand dollars per month but that does not get away from the fact we feel in the submission that we are entitled to submit for the 5 years rather than 10 years. The reason that there is only half, that is in accordance with the interim arrangement which has been made and incidentally that arrangement was - -

Q Do you see any reason why G. & O. P. should contribute an equal amount to you for the cost of operating that line ?

A It is a pro rata share.

Q Eh ?

A It is a pro rata share of operating, that is on the volume of gas.

Q They only use half of the line ?

A It is taken care of in the computation.

Q How is it taken care of ?

A No, it is just on a volume basis.

Q Did you think it should be taken care of when you thought it had ?

A I know at one time it was discussed as to whether or not we should make an adjustment.

Q G. & O. P. use less than half your line and you want to charge them exactly the same as it costs the Utility for the whole

line. That is your present proposition ?

A That is the submission boiled down.

Q That is the basis of your submission in Page #8, in Exhibit 113 (b) ?

A Yes.

Q Can that charge to G. & O. P. be worked out on the basis of what additional cost there is to the B. A. utilities by reason of carrying G. & O. P. gas ?

A Can we work out a statement showing - that is the cost of operating the lines so much. We are putting through 20 billion through the line and G. & O. P. putting 6 billion through the line and we are dividing the cost pro rata. That is the submission.

Q And you are charging the same cost per thousand cubic feet as you charge yourselves and they use less than half the line and you still say that is a fair division of the cost ?

A That is the submission that is made.

Q That is your submission.

Q THE CHAIRMAN: The question was, do you consider it fair not what the submission is. We know about the submission. The question is, do you consider it fair ?

A It is a difficult question to answer yes or no.

Q MR. BLANCHARD: Well it is a simple one. If the other company uses less than half of your line it should not have to pay the cost of the operation, that is for your line riders and all that kind of thing.

A If you take a street car ride you have to pay just as much whether you go two blocks or six blocks.

Q It takes longer ?

A Yes.

Q And it costs more in but line riding-not in taking a street car, that is not a happy comparison perhaps ?

A No.

DR. BOOMER: I do not follow that. Are you proposing a pro rata charge of the cost ?

MR. BLANCHARD: I certainly did not propose that the G. & O. P., at least I am submitting that G. & O. P. should not pay the same cost of a thousand cubic feet for gas going into that line as the B. A. They are being charged just as much as if they were using the whole line.

(Go to Page 3167)

Q Pardon?

A I take it that you feel that it should be weighted both for volume and for distance, the distance gathered?

Q And Ithink allowance perhaps should be made if you had to instal larger sized pipes in order to take care of the G.O.P. needs, but it does not seem to me that the present basis is an equitable one at all. I suggest you might care to submit some kind of a submission showing what the relative cost is. Now then, this fuel gas scrubbing item in your Exhibit 113(C), that is a little over $1000.00 for your 7 months.

Now what is the fuel gas used in, used for the compressors?

A That fuel gas scrubbing?

Q Yes?

A Yes, it is used in operating the low pressure compressor station and the high pressure compressor station. In the note attached to it you will find that that was drawn up as a separate item to facilitate reference. If you want to get the actual cost of operating the compressor stations, high and low, that thousand dollars.....

Q My suggestion is that it should be allocated to these several operations?

A As an accounting procedure it will.

Q And then we will know where that particular burden should falk when we know what the compression costs are?

A That is why I attached the note that that would be split 42 and 58.

Q Now you have got a charge for $85,000.00 for administration, general administration during construction.

A Eighty-five thousand?

Q Yes?

A Sixty-eight thousand.

Q I beg pardon?

A Sixty-eight thousand.

Q Well then, there are the old lines too, Mr.Donellan, the whole thing?

A Oh yes.

Q Is $85,000.00?

A Yes, $85,000.00.

Q But to confine it just to the new lines,that is, did you say $68,000.00?

A $68,000.00 on the new expenditure.

Q Now what does that general administration cover?

A That covers the same type of service referred to for the operations, the Head Office accounting, audit, legal, purchasing priority.

Q Does it cover the same service exactly as your fifteen thousand dollar per annum item?

A Not exactly, no.

Q Well, what else?

A The $15,000.00 per annum. The only change to operations is, there is only this one minor difference between the two, that during the period of construction Mr. McCutchin's own salary, his decks were cleared and we brought somebody else to look after his routine, and during construction the whole of Mr. McCutchin's salary was charged to operations direct. None of it was in the administration. But once operations started none of Mr. McCutchin's goes directly, and he is included in the $15,000.00, or Mr. McCutchin's successor, but it is this overhead service of a general nature.

Q Overhead service of a general nature?

A Yes.

Q And it is this overhead service performed by the British American Oil Company Limited?

A Yes.

Q The BritishAmerican Oil CompanyLimited?

A Yes.

Q And not the Utility?

A Correct.

Q So that in the period of some 6 months, Iam referring only now to the new construction?

A Yes.

Q In the period of some six months you are charging this company with some $68,000.00 for this service rendered by the head office?

A Correct.

Q In addition to that you have charged all the salaries and expenses of Mr. McCutchin?

A That is a direct charge, yes.

Q And Mr. Taylor?

A Yes.

Q Pardon?

A Yes.

Q And Mr. Cull?

A Yes.

Q Mr. Sherry?

A Yes.

Q And those are already charged against this Company as part of the capital construction costs, all their wages and expenses?

A Yes.

Q And in addition to all this you are charging this head office

expense of $68,000.00?

A Yes.

Q For 6 months?

A Yes.

Q That is $136,800.00 a year?

A Yes.

Q Pardon?

A Yes.

MR. HARVIE: No, it isn't. It is at the rate of.

MR.BLANCHARD: At the rate of?

MR.HARVIE: Yes.

Q MR.BLANCHARD: Which would be the salary of 13 men.

A No, not 13 men.

Q 13 men, $10,000.00 a year just to supervise?

A No, the work on this operation started 18 months ago, approximately a little longer than that, and the supervision and the policy matters and the use of the executive was a considerably longer period than the six months.

Q You are spreading it over 18 months then?

A I am spreading it over the initiation of the project.

Q And that was when?

A I do not know. It was the natural process of development. It was discussed, presumably, first of all about 18 months ago, but this administration charge is a charge in line with our own policy. I have got a precedent for it. I have had two cases of Government construction where I made an over-all addition of 10% and their auditors took the same reaction when they saw it that you did, and they were both accepted by the Government department.

Q Now on this $15,000.00 a year which is for exactlythe same

type of service, you are including - you are not charging then against the Utility Mr. McCutchin's salary?

A No.

Q That will be taken care of in the fifteen thousand?

A Yes, that is part of it. The difference being this, that during the operations I can apply a yardstick and I can measure it, but during the period of construction when there are far more conferences that would be entailed during an intricate matter of this kind, it cannot be measured.

Q DR. BOOMER: Mr.Donellan, I want to follow that up for a moment. On your high pressure lines on Exhibit 102(D)?

A Yes.

Q You show 10% or $21,000.00, administration. Now there are two things that impress me there, and I would like to have your opinion on them. First, the H. L. Gentry Company took the responsibility more or less of building that line?

A Yes.

Q Second, if the Gentry Company had not done it, and you haddone it yourselves, the cost would have been very much less. If the cost had been very much less you would have got less than the $21,000.00, but presumably your administration would have been greater if it had been your responsibility to build that line and not Gentry.

A No, I would not agree with that. I think there would be more administration and policy matters. First of all, whether we should engage Gentry. I think there would be - I will agree with your submission if we spent less there would be less 10% but I feel that the Gentry contract would include considerably more head office policy,direction and executive attention together with legal. There would be the importation of their

equipment without duty. All of it is included in the head office overhead charge. We had to make special arrangements with Ottawa to import their material. That is one example that the Utility got the benefit of. It got the benefit of our Traffic Department. We had to arrange for the importation of the material on a konthly basis, and instead of paying duty on the imported equipment, and making arrangements for the exporting, we got the monthly allowance on it. Similarly, you will notice less rebate by using the service of the head office Traffic Department. We took advantage of Government regulations and imported pipe and other stuff. As a direct result of the head office operations, we saved the Utility Corporation $72,000.00. I submit that if we were to have a traffic man here, and if we could have got a good traffic man, he would not have been sufficiently experienced and he would have possibly missed it, and I would not have possibly caught it as an accountant, and our engineers might, but by using the experience and having the use of an experienced traffic department, we saved $72,000.00.

Q Mr.Donellan, you can always get duty rebates on the equipment brought in, for oil equipment, that is quite common in Calgary?

A Yes.

Q And I think the traffic men attached to your Production Department here could have handled it?

A That is the point, we have not got one here.

Q I say, if you had one, he would not have cost $72,000.00, or would not have cost $21,000.00?

A You cannot get one for a short time construction job.

Q All right.

Q MR. BLANCHARD: Now, that overhead of 10% covers

general supervisional and administrative expense?

A Yes.

Q And it includes such items as engineering design?

A Yes.

Q General inspection and supervision of work?

A No. Not of field work.

Q Pardon?

A Not of field work.

Q It does not include that?

A No.

Q I am reading from Mr. Teis' definition, "And that portion of the general office expense and executives' salaries chargeable to the project"?

A Yes.

Q But you say it does not include what?

A Field work. The general examination.

Q It does not include field work?

A No, not field work.

Q I see. Now then, I thin Mr. Hamilton asked you to have certain vouchers here?

A Yes.

Q And have you got vouchers 97, 424, 428 and 728?

A What are those numbers, Mr. Hamilton?

THE CHAIRMAN: You are starting a new subject, Mr. Blanchard?

MR.BLANCHARD: I am carrying on, but it will take me a little while.

THE CHAIRMAN: I think if you are carrying on to a new subject perhaps we will adjourn.

MR. BLANCHARD: Yes, and perhaps Mr.Donellan can look

the vouchers up for me.

THE CHAIRMAN: We will adjourn for a short time.

(At this juncture a short adjournment was taken).

(Go to Page 3175).

A I have that analysis of general expense, Mr. Blanchard, if you would like me to give it to you.

Q Yes.

A General expense, $1,408 charged in the 7 months' statement includes telephone and telegraph, $660; superintendent's expense, $520.

Q Who is that?

A That is the superintendent of the plant. Mr. Taylor or Mr. Coutts and Mr. Norris. We have had three superintendents. Mr. Norris was the man we brought in to iron out the difficulties in the initial operation.

Q What were his duties?

A His duties were superintendent of the plant and just to iron out, get the compressor working properly and just put in . . . .

MR. HARVIE: The absorption plant.

A This is charged to operating expenses. I am giving Mr. Blanchard an analysis of the general expenses for the 7 months' period.

Q MR. BLANCHARD: He was employed on salary and his expenses paid in connection with putting in the compressors, did you say?

A No, his salary and expenses were paid as an absorption plant operation but he was a specialist and we used him in connection with the compressor equipment and those are his expenses incidental to that work. Something would seize up and they would want a special valve and they would run into Calgary. Sundry items, $228. That makes up the $1,408 in the statement.

Q Now I asked you to give me some vouchers.

A Yes I have them here.

Q Voucher 428.

A Voucher 428 is an invoice from the H. L. Gentry Engineering Company, covering restringing of pipe in place of pipe which was previously strung and disqualified as bad pipe, $111.99.

Q Now who was responsible for putting in the bad pipe?

A I do not know that I can say who was responsible. The pipe was served and installed and it was tested and this particular 840 feet was found defective and had to be replaced.

Q That was part of engineering, was it?

A Part of the hazard of building a plant. I mean before the ditch was back-filled a test has to be made and the test showed that 840 feet was defective and it had to be taken out.

Q That was part of engineering, was it?

A Well I would say it was part of the full operation of constructing the line,

Q Due to bad inspection, poor inspection of the pipe was it?

A Possibly. The pipe should have been, if everything had gone normally, there would not have been 840 feet to take out.

Q And we pay 10 per cent on that operation?

A Yes.

Q Voucher 424.

THE CHAIRMAN: Does your capital cost include the cost of taking up the defective pipe and laying the new pipe?

A It includes this additional charge of $111.99, yes.

Q MR. BLANCHARD: The capital cost includes putting the pipe in twice?

A Yes.

Q Plus your 10 per cent on each operation?

A On both, yes.

Q All right. And then Voucher 424, what is that?

A Voucher 424 is an invoice from J. A. Joncas, dismantling two towers at Coutts and two buildings, transporting and trucking

tower to your property at Longview, also including welding and other work outlined in my quotations, $3,145. In addition to which there is extra trip and time of men, trucking and equipment in raising the 5 by 30 tower which was rejected at the beginning by the boiler inspector extra on the above price $120, total $3,265.

Q There you moved some old stuff from Coutts?

A Yes.

Q And when it got up here what was rejected?

A The boiler inspector condemned it and there was an extra trip because it was rejected by the boiler inspector.

Q And all of these charges are included in your capital costs?

A Oh yes.

Q Plus 10 per cent?

A Yes.

Q THE CHAIRMAN: Was it the boiler or was it the tower that was rejected?

A It was the tower. I am sorry, I did not say boiler.

Q I know you did not say boiler but I wanted to know.

A It was the tower that we moved from Coutts.

Q MR. BLANCHARD: That was due to faulty supervision somewhere, I take it?

A No, it was due to, you can never tell what an inspector is going to do and one engineer might feel that a tower is adequate for certain purposes and the boiler inspector has authority to overrule him and say in his opinion it was not. I would not say it was necessarily inefficient.

Q DR. BOOMER: Was it passed by the boiler inspector at Coutts?

A I do not know the routine.

Q MR. BLANCHARD: Voucher 97.

A Voucher 97 is a summary of 4 invoices which were sent to Toronto for payment, the first of which is Jerry B. Foesier.

Q I am only concerned, I think, with the compressor base North of the Anglo-Canadian yard which was too close and had to be moved.

A Oh yes. The low compressor base No. 1 North of the Anglo-Canadian yard abandoned by your company, excavating and refilling, $110. Labor on forms, $55. Total, $165. That was a bill paid to the Hislop Construction Company.

Q Yes, and why did that have to be . . . . . First of all, you charged for putting it in there.

A That is right.

Q And that is in the capital costs?

A That is right.

Q And you had to pay for taking it out again?

A Yes.

Q And replacing it?

A Yes.

Q All because it was put in the wrong place by your engineers in the first instance.

MR. HARVIE: No.

A I am not prepared to say that.

Q MR. BLANCHARD: Well, why was it necessary?

A Well I do not know, I cannot say. But one question I know is a change in the specifications and there might be several reasons as to why it had to be abandoned.

Q It was put too close to the Anglo battery.

A Too close to the Anglo-Canadian yard, according to this, and it was moved.

Q And we are charged for all the operations?

A Yes.

Q Plus 10 per cent.

A Yes.

Q Now then, there is Voucher 728.

A Voucher 728. Oh yes, this is an invoice from the Hislop Construction Company, dealing with the spray pond. It itemizes each item, tractor levelling, etc. and tractor work, total amount of refilling spray pond, $330.

Q Has that ever been used?

A No. That, as I recall, having made enquiries on that one, the spray pond was part of the original plan and then it was finally decided, work was started on it and then the plans were changed and the spray pond was abandoned. So this $330. was the charge in connection with the levelling of the spray pond.

Q It was just a mistake in engineering design, wasn't it?

A No, I do not think you are justified in saying they were mistakes. They were as a result of changes of engineering plans. Originally the spray pond was thought to be necessary and I do not know why they changed it. Eventually it was not found to be necessary.

Q It is included in your capital cost, plus 10 per cent?

A Yes.

Q It was not taken off?

A No.

Q Now then, I understand that a costly operation had to be underteken in putting in of heaters during the winter months.

A Yes.

Q Why was that necessary? I mean, why should it not have been put in when the pipe was being installed in the first place?

A I am not sufficient of an engineer to answer that. I do know after the test period and the plant was put into operation,

heaters were found to be necessary.

Q Well is it not a fact that it was due to failure to appreciate the fact that heaters would be needed on the line which resulted in their not being put in when the lines were put in?

A I do not know.

Q They had then to be put in during the winter at a great deal of expense?

A It would be equally fair to assume that the engineer thought he could save the cost of those heaters but practice and experience proved that he was wrong. I do not say they are necessarily mistakes.

Q What I want to point out is that is another matter of engineering.

A Oh yes.

Q All included in your 10 per cent which you are charging?

A Yes.

Q For good engineering advice?

A There has never, in all the construction accounts that I have had and in my experience with the British American Oil Company we have spent, under my supervision, I have capital expenditures of some several millions of dollars and there are always these hazards in any construction project.

Q Now you got the services of inspection by Mr. Rogers free during your construction.

A Mr. Rogers was the Board engineer.

Q Yes.

A Yes.

Q And that cost you nothing.

A I do not think there was any charge made for that.

Q That would be something coming into your 10 per cent though if Mr. Rogers was not there.

A Well Mr. Rogers was looking after the interests of the Board. We might equally argue why did not Mr. Rogers accept responsibility for the spray pond and the defective pipe.

Q DR. BOOMER: Mr. Rogers was there as an inspector to see that the items listed in the Board's Orders were put in. Mr. Rogers had no authority and could not take any authority to manage your construction operations.

A No.

Q THE CHAIRMAN: It was he who condemned the pipe that you spoke of a few moments ago.

A I did not know that.

Q MR. BLANCHARD: You paid $1,800 to have this second-hand pipe inspected that you purchased.

A Paid how much?

Q $1,800.

A I believe we did. That is not in one of these vouchers is it?

Q It is a combination of several vouchers.

A I accept that figure.

Q That was some inspector in the East was it, or in the States?

A Offhand, it was the inspector at the point of shipment.

Q And that is charged and then you charge another 10 per cent.

A Oh yes.

Q On that inspection.

A Yes.

Q THE CHAIRMAN: Was that your inspector? Was he acting for you?

A He was acting for us. We had difficulty getting pipe and this inspector was appointed to see that the pipe was satisfactory.

Q MR. BLANCHARD: And then you had Mr. Sherry brought here from the United States to supervise the construction by

the Gentry people?

A Not only the work of the Gentry but supervise and be the Field Engineer of the whole project. He had much wider responsibilities than the Gentry company.

Q And Mr. Sherry's wages and expenses and the difference between Canadian and American income tax all paid and charged to this?

A Yes.

Q And top of that you charged 10 per cent?

A Yes, we charged 10 per cent on every item that went into capital.

Q You do not consider Sherry's services were any part of the general overhead on which you are charging ten per cent?

A No.

Q Voucher 782, what is that? That is the Hislop contract. Is the spray pond?

A Is 782 on your list, Mr. Hamilton? I do not seem to have it.

MR. HAMILTON: Yes, it is the Hislop contract.

A I beg pardon, I have got it. Voucher 782 is an invoice from the Hislop Construction Company, covering 5 itemized services. An invoice re boiler house building and installing drip boxes, boxing in steam lines, constructing buildings around tower, work at the river pumping station, $1,002.80; contractors' remuneration, 20 per cent, $200.56; transporting workmen to and from locations, $264, totalling $1,467.36.

Q MR. BLANCHARD: Who would supervise the work done on that?

A Who would supervise the operation here?

Q Yes.

A It would be Mr. Sherry.

Q Mr. Sherry?

A Sherry would be the party responsible for seeing that this work was done, yes.

Q Then there is Voucher 601.

A Equipment supplied by Coutts Refinery (1) Dubbs fractionating tower, $100; one main boiler house 38 by 60 by 12, $200; Butler building 20 by 40 by 20, $200 and re-run tower, $100; total, $600.

Q That was an old plant at Coutts that was out of operation?

A Mr. McCutchin was having difficulty getting supplies. He went to Coutts and asked to have this equipment moved. The fractionating tower and the re-run tower he put in at scrap value and the boiler house and the Butler building at a nominal value of $200 each.

Q Are these in operation now, are you using them?

A I would hate to say definitely that I know. I understand that they are but I do not know that they are.

Q Do you know what the comparison would be between the cost of obtaining new materials in place of dismantling that plant down at Coutts and bringing it up here?

A No, I do not. But there is this, I understand that the fractionating tower and the re-run tower are items worth in the hundreds if not thousands of dollars. And this is scrap value, or practically scrap value.

Q Well now, you have got two vouchers, 592 and 252, that is for crop damage.

A 592. Settlement in respect of crop damage, fence damage and easements in connection with gas utilities, $508. Voucher 252 is a voucher for T.A. Foley, Real Estate, "adjustment of crops and garden damage destroyed by machinery, digging and filling trench, right-of-way for

boilers owned by B.A. Oil Company, also making settlement with owners of land for right-of-way to pass through, agreement to take care and seed grass and destroy noxious weeds which grow on said right-of-way. Also making settlement of fences and crop destroyed by cattle getting into the crop when fences were down, $125.

Q And we are to pay 10 per cent on that?

A Yes, 10 per cent on each of those.

Q Voucher 204.

A Voucher 204, is that for $283.63?

Q That is the Price-Waterhouse voucher for advising on income tax?

A Voucher 204 is an invoice from Price-Waterhouse Company"re charges for services rendered, advising your Mr. McCutchin and Mr. Gentry relative to the income tax difference of a United States Contracting Company carrying out a contract in Canada; interviewing Inspector of Income Tax and writing you fully thereon. Fee, $50."

Q It is a small amount but I thought that was one of the services your Head Office provided, advice of that kind.

A Well this was a local charge incurred by Mr. McCutchin and all local and direct charges are charges to the operation.

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I N D E X

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19th September, 1945.

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: : : : :

Q Now I went to go on to this matter of interest during construction and then I will be through. Your interest during construction amounts to 4%, does it not?

A Interest during construction?

Q It is twenty-eight thousand, it is Exhibit 102(A), page C, interest during construction amounts to $28,836.00, which is 4% of $728,000.00, in other words half, for 6 months, that is the rate on half the amount?

A I would argue there that that interest during construction is on the 9½% rate for the approximate time that the money was involved, the over-all average.

Q Yes, and it comes to 4% of that amount as a matter of fact?

A Yes.

Q Of the total construction?

A Right.

Q Now then, have you charged interest during construction for construction done during 1945?

A Not yet, no.

Q I think it is in your submission?

A $728,000.00, the interest during construction, my recollection is, and I may have to be corrected on it, is that during construction interest is only charged up to December 31st, 1944.

Q Well my impression was that it was charged to March 31st, 1945, and you admit you should not charge interest during construction on any construction in 1945, am I correct in that?

A Yes, the intention was to put it on the six months ending 31st December, 1944.

Q Exactly; can you furnish a statement of your capital costs

up to the 31st of December, at that time, the 31st of December 1944, can you furnish that?

A Well I can but I cannot get it now.

Q Because that is the amount which should be taken?

A Yes. Well, some computation of interest during construction, we have it on page 22 of Exhibit 102(A), that shows the details of the, this capital construction of $664,584.90.

Q Which is that?

A On page 22 of Exhibit 102(A-1), no, Exhibit 102(A), submission 1 to Volume 2.

Q That is the capital disbursements?

A The capital disbursements, the first column.

Q July 1st, 1944 to February 15th, 1945?

A Yes, that is the out of pocket, the actual disbursements up to December 31st, 1944.

Q Well then, you have next "February 16th, 1945, to March 31st, 1945?

A Yes.

Q $64,068.95

A $64,068.95

Q Now then, has that construction been in 1945?

A That was not done in 1945, paid for in 1945.

Q Was it done in 1945?

A Some of it was done in 1944 and the invoices were not received until 1945.

Q Then do you tell me that the whole $728,653.85 covers construction done prior to the 1st of January, 1945?

A No.

Q Is that definite?

A No.

Q Then what is it?

A The construction paid for. That second column, there is always work in process; all of the expenditures incurred under the first column, $664,584.90, was completed and paid for in 1944 and many, the work represented by the second column of $64,068.95 represents work which was done, some of it was done in 1944 and some of it was done in 1945, but it was all actually paid for in 1945.

Q Well, all right. Are you asking for interest on the $64,068.95 in your Column 2 on page 22?

A I have a schedule showing the details of interest during construction, if I can find it.

Q Well if you cannot tell me now, do not let us take up any time, but you do admit, you do agree with me that no interest during construction should be charged for any construction done after the 31st of December, 1944, you agree with me there, because it was included in the rate of return?

A In the rate of return. We are not entitled to two lots of interest.

Q You do not want it twice?

A No, we do not want it twice.

Q All right. I would like you to make certain that no construction done in 1945 is included in the sum on which you are charging interest?

A I will verify that.

Q THE CHAIRMAN: It would be a case of breaking down your $64,068.95?

A Yes, that is it. In fact, I have already given instructions for that.

Q MR.BLANCHARD: Now then, we have used Mr. Hill's

submission as a comparison, in one or two instances, and I am going to refer to his item for general overhead costs for which he added 9% to the investment, 9% of the capital costs, and on page 13 of Exhibit 59, that is Madison's submission M-6, Mr. Hill says this:

"These general overhead costs include: Administration during construction, legal expenses during construction, engineering and supervision during construction, interest during construction, insurance and taxes during construction, damages in excess of insurance during construction,"

and for all of those items, including interest during construction, he has made a charge of 9%?

A Yes.

Q Now in your overhead of 10%, obviously you omitted interest during construction?

A Quite.

Q Which Mr. Hill put at 3% and you put it at 4%?

A Yes.

Q You omit supervision during construction, you charge that as a charge against, in your costs?

A Yes.

Q So that is not covered by your 10%?

A No.

Q Damages in excess of insurance during construction, you do not include that in your 10% overhead?

A No.

Q Because you paid those directly?

A We paid those damages directly.

Q And 10% on top of that?

A Yes.

Q Legal expenses during construction you do include in your 10%, do you?

A Yes.

MR. McDONALD: Not in Mr.Teis' submission.

A The legal expenses?

Q Yes?

A Well the head office legal department is part of my administration.

Q MR.BLANCHARD: And in the case of Madison, its parent company makes no charge for the general assistance which may come from head office, that is true?

A That is what I understand.

MR. BLANCHARD: All right.

MR. FENERTY: May I ask a question or two arising out of what Mr. Blanchard has asked?

THE CHAIRMAN: Yes.

.....

CROSS-EXAMINATION BY MR. FENERTY

Q Mr.Donellan, I was interested in your discussions with Mr. Blanchard about, - when you touched lightly on the contract between the producer and the British American Oil Company having to do with the processing of gas from the wells, and I understand on the general basis, the general basis of those contracts was that the producer received 20% of the proceeds of the production obtained?

A 20% of the value of the gasoline content.

Q Yes?

A Yes.

Q Leaving 80% to the British American Company?

A Yes.

Q And the British American Company did all the gathering?

A Yes.

Q So that the effect of the contract between the producer and the British American Company is that 80% of the gasoline content pays the entire cost of gathering and delivering to the absorption plant.

A That is the cost which the British American Company pays for the, - that is the cost that the British American Company pays for the absorption plant.

Q Yes, and the reason the 80%, that the British American got 80% of the value of the gasoline content is because it had to pay the entire cost of gathering and transmitting to the plant, that is right is it not?

A Well it was part of the contract arrangement.

Q Yes?

A Under which we did the collecting of the gas.

Q And that involved the gathering and transmitting of 100% of the gas?

A Correct.

Q The entire gas?

A The entire volume.

Q And it would follow that if the producer had been looking after the gathering and transmitting to the plant, that is delivery f.o.b. the plant instead of f.o.b. the well, the fair amount that the producer would receive would necessarily be in excess of 20%, would it not, because there would be all those costs?

A I am afraid I do not follow you there.

Q You see you have a deal on between the producer and the gasoline

industry?

A Yes.

Q That producer producing wet gas at the well?

A Yes.

Q And it is going to be processed at another place?

A Yes.

Q And somebody has to transport it?

A Correct.

Q And they make arrangements that in consideration of the gasoline industry getting 80% of the value, it will bear all the transportation and gathering costs, that is right is it not?

A That is right. They will deliver their gas and surrender the gasoline, all title to the gasoline content, and it is delivered at their well; the British American Oil Company will process it and it will accept 80% of the value of the content.

Q So that what was considered a fair contract involved 80% of the gasoline content bearing all the costs of gathering, that is right is it not?

A That is right.

Q And I say it necessarily follows that if the producer bore the cost of gathering, a fair contract would give him much more than 20%, would it not, that is just arithmetic, is it not?

A If the producer bore the cost?

Q Yes, if he delivered it to the absorption plant he would get perhaps 50%, would he not?

Q THE CHAIRMAN: Delivered 20% plus 80%?

A I cannot see the point you are making at all.

Q Mr. FENERTY: Do not concern yourself with the point I am making; I made that remark before and I am going

to make it again, please do not be concerned with the point I am making. Let us concern ourselves with the logic of it. Now let us go back to this, I say, and just think of this alone.....

A We are in agreement to this stage, that the present arrangement is that the producer supplies his product at the well and accepts 20% of the gasoline content, and the producer and the oil company are both satisfied. Now it is your next step that I do not follow you.

Q Let us go over it again and perhaps we can get together, I think we can if we are concerned with the immediate question and not with the final result, if we do that I do not think we will have any trouble?

A All right.

Q Now, we have this, we are together this far, that a fair contract is one under which 80% of the gasoline content of that gas bears the entire cost of gathering and delivery to the absorption plant, we are together that far?

A Yes, I agree with that.

Q And I say it necessarily follows then from that, does it not, that if the producer bore the entire cost of delivering, it will not come out of his 20%, a fair contract would give him more than 20%, would it not?

A Yes.

Q And it follows from that then that whoever bears the cost of gathering is entitled to a share of the gasoline content?

A I see the point you are making.

Q Now let us get that, just let us follow that, it follows from that, you see, that we have this, that if the gasoline industry bears the cost of gathering then it pays for it out of the 80%?

A Quite.

Q If the producer had borne the cost of gathering he would get something more than 20%?

A Yes., he would not be satisfied with 20% if he was going to deliver it to the plant.

Q All right. Now then the British American takes the position that that is a fair set-up, that the costs of gathering this 100% of wet gas which is used in the absorption plant, is paid for out of the proceeds of the gasoline recovered?

A Yes.

Q That was fair at all times?

A Right.

Q And we have got this point, that whoever pays for it shares in a portion of the proceeds of the gasoline content, have we not?

A Whoever pays for it?

Q Yes?

A Shares in a portion?

Q They get a percentage of the gasoline content for doing that?

A Yes.

Q We have got that now, have we not?

A Yes.

Q Eh?

A Yes.

Q Now what would be a fair percentage of the gasoline content for the consumer to get, if he paid for the cost of transporting?

A I do not know.

Q Well it would be something, would it not?

A You are asking me what would be a fair amount and I say I do not know.

Q We have got to the stage now that the person who pays for the cost of transporting is entitled to a percentage of the value, have you any comment as to what would be the fair percentage to the consumer if he paid for it?

A No, I have not.

Q But he would be entitled to something under that argument would he not?

A Yes, he would be entitled to something.

Q I see. Now if I understand your proposition, having made a deal with the producer that you would get 80% of the cost, of the proceeds rather, of the gasoline, and would pay all the costs of gathering, am I right that your proposition to this Board involves loading some of those costs which you are to pay out of the 80% on to somebody else.

A I am only before this Board to justify the costs of conducting operations. My company will have to abide by the Board's decision as to who is to bear that cost. There are three interested parties.

Q But your submission is this, is it not, that having made a contract under which the entire costs of gathering 100% of the gas and delivering it to the absorption plant would come out of 80% of the value of the gasoline content, you now want it to come from some other source? Do you not?

A I do not think the two are related at all.

Q Am I right in this, that that is the effect of your submission?

A No, because there is a dual, you have to take the whole contract and as I pointed out yesterday, you have operations other than - when our company started operations the extraction of the absorption gasoline was the one and only object in view. When the Conservation Board decided to conserve gas we started a totally different operation.

Q I am not talking about your new construction at all but -

A But then the utilities on which our submissions are based on cost of operation necessarily includes cost of operating the new construction.

Q Let me put this to you. Is this not the situation that as has been recognized in this industry in the Turner Valley field that the cost of gathering and transmitting wet gas is borne by the gasoline industry to the absorption plant ?

A Certainly was the case in connection with our Company in the south end of the field.

Q And these contracts we are referring to also referred to this waste product which you have down stream from your absorption plant, the dry gas, that if you had in a time got a market for that thing would first appear down stream, you would divide the proceeds would you not ?

A That is right.

Q That contemplated that at some time in the future at a point down stream from the absorption plant you would deliver a product no good to the gasoline industry,you would.sell it and get something for it ?

A That is right.

Q I see. Until this thing came before the Board your whole proposition was that the transportation of the product, 100% of the product which the gasoline industry used and shared by you and if you could start down stream from the absorption plant and do anything with the dry product instead of flared you would -divide what you got ?

A Yes.

Q In other words your dry gas started down stream ?

A Yes.

Q If you had a market ?

A Yes.

Q And your contract took care of everything at the absorption plant ?

A Yes.

Q Do you see any reason for changing ?

A Yes, that arrangement and scheme, that contract was only because there was only a single operation in view when those contracts were entered into and now what was a by-product turns out to be a very essential product and that is why these submissions are made for the Board to register and assess the benefits that admittedly three different people get, the producer, the oil industry and the consumer, but as far as my appearance before this Board is concerned I am only concerned with the operations of the utility, not with the allocation of it.

Q Then if the consumer does pay any cost of gathering he necessarily shares in the gasoline content does he not ?

A No, no I am not so sure.

Q We were there a minute ago.

A The producer disposes and sells the natural gasoline content of his gas so he has now got the residue gas available for disposition.

Q You are not going to leave the producer with just 20% the same as he would get when you were going to pay the entire cost of getting the gas through and you keep the full 80% and have someone else pay the expenses of getting it there ?

A Well the Board's instructions are as to who should pay it.

Q Do you think of doing that ?

A I do not know.

Q You have not thought of it ?

A Yes I have thought of it but as I say it is no concern of mine.

THE CHAIRMAN: Anything further Steer ?

CROSS-EXAMINED BY MR. McDONALD:

MR. McDONALD: Before Mr. Chambers starts, while on this matter of contract as referred to by Mr. Fenerty I would ask that we have on file with the Board now the arrangements under which the producers in the south end are delivering their gas for sale to the British American.

A That of course is a tall order. I have some notes on that which will possibly clarify it a little for me as to what you want.

MR. HARVIE: Maybe I can be of help. What is it you want.

MR. McDONALD: Arrangements were made between the Companies, the British American Company and the producers as to delivering the gas and the apportionment of proceeds of sale.

MR. HARVIE: We will supply all details of those arrangements.

MR. McDONALD: Can you do that today.

MR. HARVIE: No I do not think so. There are half a dozen letters, they will have to be copied.

A I notice in summary of contracts for the wells we have got eleven different types of arrangements. If you want a copy of each one filed, some are apparently not standard contracts.

MR. HARVIE: We will get all of the arrangements under which we are getting gas in the south end of the field.

Q MR. McDONALD: Is the situation now generally that the British American Oil Company setting up or the British American utility paying anything to the British American for gas delivered to the market ?

A Yes.

Q How much ?

A The interim arrangement has been made pending decision of the Board coming down, whereby the British American utilities are paying a price to the British American Company for gas, the yard stick of price being two cents per m.c.f. of the quantity paid for by Madison.

MR. HARVIE: And other producers ?

A And other producers.

MR. CHAMBERS: My friend, Mr. Harvie, said he would file contracts under which they are getting gas in the south end of the field. I am not speaking on behalf of Madison or Royalite but another client and I would be interested in seeing placed before the Board the contract under which they get in the first instance the gas in the north end. I would suggest we have them all.

THE CHAIRMAN: That is the gas in the north end. Is that not an exchange affair ?

MR. CHAMBERS: Yes, but the settlement is still with the British American.

THE CHAIRMAN: The settlement is still on the basis of the south end contract.

MR. HARVIE: I am afraid I did not get that Mr. Chambers.

MR. CHAMBERS: You intimated you were going to file contracts under which you got gas in the south end and I say I am representing another client, not specifically represented here, and on behalf of that client I would like to see placed before the Board the contracts showing settlement made in the north end of the field.

MR. HARVIE: Then if that is the case I think all

[illegible]

contracts, Madison, Royalite, British American should all be filed because as far as the exchange, as the Chairman mentioned, one is dependent upon the other, a sub-contract, and in order to have a complete detail we should have all contracts.

MR. CHAMBERS: What I eam getting at is the basis on which settlement is made with a major company by British American.

THE CHAIRMAN: Are they not all on the two cent yard stick?

MR. HARVIE: 50% - two cents.

THE CHAIRMAN: That is subsidiary of course, but the general basis is two cents, whatever your private arrangement may be in your own sub-contract but it does not matter.

MR. HARVIE: I think that is uniform in Alberta. I do not think there is any exception.

THE CHAIRMAN: I think we will restrict what you are to produce Mr. Harvie, to the various arrangements your Company have for the gas you get delivered to your absorption plant.

MR. HARVIE: In the south end.

THE CHAIRMAN: In the south end.

Q MR. McDONALD: What was the point you were making Mr. Donellan ?

A I was wondering whether I had better read this statement. I think it will answer one of your questions. That in the seven months we have delivered to Madison 1,907,365 m.c.f. of gas. We have repressured 872,933 m.c.f. We have had sundry sales and deliveries of 223,422 m.c.f. That is a total of 3,400,210 m.c.f. Now we have, British American utilities have paid British American in respect of that volume a total of $82,482.78, being two cents on the 1,845,594 m.c.f. paid for by Madison and two cents on the 223,422 m.c.f. of sundry

[illegible]

[illegible]

[illegible]

sales.

Q That total sum of money is held by the British American Company ?

A Yes.

Q What is the arrangement under which -

A The arrangement -

MR. HARVIE: That is what we are prepared to file.

Q MR. McDONALD: Just while we are on it now and it is fresh in every one's mind, are there a number of different arrangements ?

A With minor changes we have, for example, 13 wells with standard life contract, another 18 with same contract only have term of 8 to 10 years instead of life of well. There are one or two cases where the contract itself was a term contract which has expired and are carrying on under the same basis. That was the point I want to bring out. Whether one standard contract would be sufficient.

Q Well will you answer me this. An offer was made to every producer delivering to British American Company in February or March of last year stating that the producer would have an opportunity to elect ?

A Yes.

Q As between the standard contract ?

A Yes.

Q Or leave the matter of the disposition of the funds held by the British American to the orders of the Natural Gas Utilities Board ?

A That is correct.

Q Now how many parties elected to leave the matter to the Board ?

A I would have to look it up. I think all of them. I do not

think we are paying anybody for gas. I think they all elected to hold it in suspence.

Q If they all elected, that is, I will read what was given to one Company - that at your election it will be held in trust, that is the British American will hold in trust all moneys received.

MR. HARVIE: This is purely a matter between the British American and the producer as to the disposition of funds that the producers get. I think it is not pertinent on the question of arrangement between the producer and the absorption plant. I do not think this has anything to do with this inquiry at all and I suggest that the witness does not answer it.

THE CHAIRMAN: What was the point you wished to make Mr. McDonald ?

MR. McDONALD: I wish to know how many producers have adopted this election and how many have not and how many have been dealt with on the contract. It is purely a question of the matter of cost to the producers and is completely a matter relevant to this hearing.

THE CHAIRMAN: At the moment we are dealing with the British American utility rate base and it does not seem to me that it has any relevancy. There may be another place Mr. McDonald where you may bring it in properly.

MR. HARVIE: I am quite prepared to give information for use by Mr. McDonald to apply where it is relevant but not at this stage.

MR. CHAMBERS: Would it not be relevant on the question of the revision of contract between the producers.

THE CHAIRMAN: Yes.

MR. CHAMBERS: But my friend's idea was that it was relevant when you come to fix the absorption price.

MR. HARVIE: Oh no I say it is not relevant or necessary to the inquiry.

THE CHAIRMAN: Not in this phase of the hearing.

MR. CHAMBERS: Oh but it had occurred to me whether Mr. Donellan or somebody would be back to answer the question.

MR. McDONALD: The point I have in mind was that Mr. Fenerty raised a question of disposition and the cost.

THE CHAIRMAN: And nobody objected and I am not going to stop if there is no objection but an objection is taken and I will rule accordingly but I think the subject you are pursuing is not relevant at all.

MR. McDONALD: I may disagree with you.

THE CHAIRMAN: That is unfortunate but that is the position.

Q MR. McDONALD: I would like this Mr. Donellan, can you give me a statement showing the present standing of the relationship of the British American Company and the producers who are delivering gas to the absorption plant ?

A A statement showing the relationship between the producers and the British American Company.

Q With regard to this roughly $80,000.00 which is now on deposit.

THE CHAIRMAN: The relationship is a contractual one.

MR. McDONALD: That is what I want to know.

THE CHAIRMAN: That is the answer is it. Now do you want the contract ?

MR. McDONALD: I want a summary of the various contracts.

THE CHAIRMAN: And what have they to do with the rate base ?

[illegible]

[illegible]

- [illegible] -

[illegible]

[illegible]

MR. [illegible]: [illegible] is not [illegible] a [illegible]

[illegible]

MR. [illegible]: [illegible] is this [illegible] [illegible].

MR. [illegible]: [illegible] is [illegible] [illegible] [illegible]

MR. McDONALD: Well it may have a considerable bearing on the distribution of costs.

THE CHAIRMAN: Mr. Chambers?

.....

CROSS-EXAMINATION BY MR. CHAMBERS.

Q Mr.Donellan, would you turn to Exhibit 113(B), that is known as Volume 5, page 8. As I understand it, this Exhibit 113(B), part of the submission of the British American, is to the effect that British American should be paid a minimum monthly charge for five years.

MR. FARVIE: You mean British American Utilities Company?

MR. CHAMBERS: The B.A. Company. The Utility or the Company. It is the Utility Company. It should be paid a minimum monthly charge of $2,190.00 for five years for transporting gas from the Gas & Oil Products refinery at Hartell, through the Madison scrubber?

A Correct.

Q And, as a matter of arithmetic, I compute that as $131,400.00 for the five year period, that sum is roughly correct, is it?

A Yes. The total is shown as $131,364.00.

Q $131,364.00?

A Yes.

Q It is shown there?

A Yes.

Q Now, the length of the line of the B.A.Utilities from the British American absorption plant to the Madison scrubber I am informed is around 11 miles, between ten and eleven miles?

A That is my understanding.

Q Yes. And the G.O.P. gas is delivered to that line near

Hartell junction is it not?

A Yes.

Q And that point happens to be about one-half of the distance between the British American absorption plant and the Madison scrubber?

A Approximately that.

Q Now, according to this Exhibit 113(B), I take it that the total operating cost of the entire line from the B.A. plant to the Madison scrubber for the five year period is $570,114.00?

A That is for the ten year period.

Q That is for the ten year period? I am sorry.

A Yes.

Q And that includes depreciation allowance, and the return on investment ?

A Yes.

Q And the total estimated throughput is 28,964,000,000 cubic feet?

A Yes.

Q For the ten year period?

A Yes.

Q Of which 6, 675,000,000 will be sent into the line from the G.O.P. plant?

A Correct.

Q Now it is common knowledge, is it not, that the G.O.P. gas does not enter or does not pass through that part of the line between Hartell Junction and the British American plant?

A No, I understand not.

Q And is no part of the throughput of that part of the line, at least. And I think you said in answer to Mr. Blanchard that it is possible that there will be additional gas over and above the 28,964,000,000 pass through this line from the B.A.

plant to the Madison scrubber after the ten year period?

A Possibly, yes.

Q Yes. I think, Mr.Donellan, you have followed the proceedings of the Board from the first in a general way although you have not been here at all times?

A Yes.

Q And after hearing all the evidence as to reserves and the engineers as to the plan of taking that out and so on, you realize or understand that the Board in the end will make some decision as to the estimate of gas that is to be passed through the different systems over the life of the field?

A Yes, I understand that.

Q Yes. Now let me put this to you, assuming that the Board should come to the conclusion that on the evidence there will be ultimately passed through this line from the B.A. absorption plant to the Madison scrubber, more than 28,964,000,000, don't you think that that fact should be taken into consideration in fixing the amount of the charge for the conveyance of the G.O.P. gas?

A Well that will have to be considered when a decision is made.

Q Yes. But the point I am getting at is, do you think that is a reasonable thing or a reasonable basis for the Board to take into consideration?

A Yes sir, I think it is.

Q As I understand it, this $2,190.00 monthly charge is, in effect, charged up to the party paying for the transportation of the G.O.P. gas, a proportion of the carrying charges of that portion of the line from the B.A.plant to the Hartell Junction, is it not?

A I am sorry I missed the start of that.

Q This $2,190.00 charge per month includes in it, in effect, and charges up to the G.O.P. gas a proportion of the carrying charges and the operating expense of the line from the B.A. plant to the Hartell Junction?

A Yes, it does.

Q Through no portion of which the G.O.P. gas passes?

A Correct.

Q Now I am asking you to see what you think of this as a suggestion for the Board to consider, that that rate or charge should be arrived at on a basis of something like this, you take the over-all cost of the line, the entire cost, and you ascertain the estimated throughput, the figure which the Board will ultimately decide, and that you should work out your depreciation on a unit basis. In other words, divide your capital cost by the total estimated throughput of the line and get the amount of depreciation charged to each thousand cubic feet of gas that goes through. Do you think that that is an element that would be fair to consider?

A That would be fair. That would be another way of approaching it.

Q Yes. Now let us go further. Do you think it is fair, I am just asking you for your views on it, Mr.Donellan, to take the capital charges or the capital costs of half of the line, the cost of the line from Hartell Junction to the Madison scrubber, and in order to get your depreciation per m.c.f., divide that by the total throughput of that portion of the line?

A Do you mean weighted for distance?

Q Yes?

A I should say that that would still be another matter.

Q I mean, that is something that might well be considered?

A Yes.

Q And that rate of return of 15%, or whatever the Board fixes, inclusive of income tax, should be applied so far as this particular charge is concerned only to that capital cost of the line from Hartell Junction to the Madison scrubber?

A Well, whichever one, either this submission or your two submissions, I do feel that the return on the investment should be handled exactly the same as the operating costs and the administration.

Q Yes. Now then, let us turn to the proportion of your operating expenses that should be included in this rate. I am suggesting that the proportion of the operating expenses which might be charged to the rate would be to figure out the actual operating expenses of the entire line from the B.A. plant to the Madison scrubber, and allocate 50% of them to the operation of the line from Hartell to the Madison scrubber, and then allocate that proportion of them to the G.O.P. gas which that, the amount of the G.O.P. gas, bears to the entire throughput of that entire portion of the line?

A That would be a reasonable approach for dividing it.

Q Yes. I was interested in one thing yesterday in the discussion which you had with my friend, Mr. McDonald, and if I recall correctly, you, in effect, said to him in reply to his question that as a comparison with the risk so far as rate of return is concerned, of the Gas Company and the B.A. Utilities, there was considerably more risk to the B.A. Utility?

A I did.

Q And that leaving aside the question of the shorter amortization period on the B.A. Utility, that the risk of the Madison was somewhere in between the two, is that right?

A Yes.

Q Now I am just interested to know what you consider, what is the basis for your statement that the Madison risk is less, or not as great, than the B.A. Utilities?

A Because they have a longer expectation of life, and it is spread over a longer period. My recollection is that the Madison Company have got reserves which contemplate 25 or 30 years' life, whereas our engineers have a ten year life for our plant. It could be said that the amortization on the ten year period would offset it.

(Go to Page 3209).

Q Yes, so that on the over-all picture you think that the risk, so far as rate of return of these two utilities is concerned, that is the two utilities in the field, works out at about 50-50?

A 50-50. Madison have a bigger volume and a larger area.

Q I want to refer you next, Mr. Donellan, to I think it is Volume 39 of the transcript, page 3031. Now as I understand it, the effect of what you say there is this, first that Teis' valuation of the B.A. pipeline was $2.135 dollars per foot, is that right?

A Yes.

Q And that is shown in Exhibit 102 that you filed?

A Yes.

Q And that Madison's valuation for its pipeline was 2.232 dollars per foot.

A Yes.

MR. HARVIE: No, that was a mistake.

A I corrected that in Exhibit 102(B). I picked the wrong figure out of my note book.

MR. HARVIE: The corrected figures are 2.135 B.A. as against Madison 2.105.

Q MR. CHAMBERS: Now you will, I think, perhaps recall that Mr. Teis, in response to a question that I asked him, said, in effect, that the observed depreciation on the two systems, Madison and B.A., would not have any relation to each other. Do you remember that?

A Yes, I think he did mention that.

Q And you are in accord with that statement?

A I am in accord with that statement, yes.

Q Now in Exhibit 102(C) that you filed, you used, as I understand it, Hill's rate of depreciation on the Madison system and applied that to the B.A. system, is that right?

A I did, yes.

Q Now I do suggest, at least it occurs to me, Mr. Donellan, that in view of Teis' statement with which you agree that that basis of depreciation is inconsistent.

A Well of course I think you have to bear in mind what the object was of the preparation of this Exhibit 102(C). That was primarily used for internal purposes to satisfy myself as to the comparative result of the two appraisals. I will concede that if I was valuing the B.A. plant on the Hill basis, there would be several refinements made of which probably depreciation would have been one but I was more concerned to know to what extent I could accept Teis' appraisal. There did not seem to be any comparable basis in the detail of the two engineers.

Q THE CHAIRMAN: Perhaps your $200,000 item which emerges as $58,774 would be another refinement, would it?

A No.

Q MR. CHAMBERS: In any event, this Exhibit 102(C) disregards the kind and condition of the pipe installed in the two systems?

A I simply started off - both engineers, as I recall from reading Mr. Hill's evidence and from what Mr. Teis said, both systems were full and complete good working operating units for the purposes to which they were being applied. I wanted to use Mr. Hill's values, so wherever possible I used Mr. Hill's figures, on cost and depreciation.

Q Would not this be a proper basis of comparison and see whether you can agree with me on this. Take Hill's value of pipe used, using equivalent lengths and size and so on.

A Yes.

Q And then depreciate that value or that amount at the observed rate given by Teis and based on his actual inspection, which was 30 per cent and then add or use Hill's installation cost undepreciated and comparing the Teis method, would not that . . . . .

A Well you are just going in reverse. That is Teis' valuation of the Madison appraisal.

Q In order to test it . . . . .

A Yes.

Q I have here a statement set up on that basis and I want to discuss it with you, Mr. Donellan.

STATEMENT PREPARED BY MADISON NATURAL GAS COMPANY LIMITED of VALUATION OF BRITISH AMERICAN GAS GATHERING SYSTEM, based on HILL'S UNIT COST IS NOW MARKED EXHIBIT 118.

Q Mr. Donellan, Mr. Stevens-Guille draws my attention to this that I think you said that I am suggesting that we appraise the Madison system on Teis' basis.

A Yes. That I gathered was what you are saying. Because it is not what you have done.

Q We are using the pipe and so on; we are using your pipe, not ours.

A I noticed that on the statement. You are taking the British American pipe and applying the unit cost.

Q Now as I understand it, the lineal feet and description and average weight of pipe per Teis, unit cost of pipe and total cost of pipe, that those figures are taken from Exhibit 102(C).

A That is right.

Q And that in the next column we have arbitrarily applied the 30 per cent observed depreciation on cost of pipe alone, and not to the installation cost.

A I would like to interject that I think that is most unfair.

Because there is an item of weighting in applying the cost of pipe and using Hill's basis of pipe, we have weighted that pipe. However, I am sorry I interrupted.

Q I am informed by Mr. Stevens-Guille . . . . .

A You have covered my own statement.

Q Yes. 102(C), the first three columns of figures and then follows: Value, less 30 per cent observed depreciation. That 30 per cent applied only to the cost of the pipe.

A The cost of the pipe, yes.

Q And not to the depreciated installation costs at all as in accordance with Mr. Teis. Then the next column goes on: Cost to lay.

A Yes.

Q Those figures are taken from Exhibit 59, which was a statement of Mr. Hill's unit cost.

A Yes.

Q And I adjusted those allowing for this pipe being unwrapped.

A Yes.

Q And the last column or the last two columns are the results of previous columns. But I should say there is one typographical error in the last column which does not affect the total. About two-thirds of the way down the column there is a figure of $891.05. That should be $897.05.

THE CHAIRMAN: My copy is corrected.

A Yes, and my copy is corrected.

Q MR. CHAMBERS: In other words I am submitting that statement to you, Mr. Donellan, and I suggest that it could be checked, to illustrate the proposition that I put to you as another basis of comparison and the total on that after allowing for depreciation is $91,726.02.

A In connection with pipe only?

Q Yes.

A Yes.

Q As compared with the $138,000 that is in your Exhibit, ...

A Oh no. That is installed pipe in the ground.

Q Yes.

A But my statement of $138,000 includes other material and other items. This is restricted to pipe only.

Q And fittings?

A And fittings.

Q This includes pipe and fittings. However I think in fairness to you that you should be given an opportunity to check it over.

A Yes.

Q And if there is any explanation we can deal with that tomorrow.

MR. BLANCHARD: Does this include the item of connection labor that is included in the unti cost?

MR. CHAMBERS: I am instructed that the cost to lay includes all Hill's figures for installing the lines ready to go except an allowance taken off for wrapping.

DR. BOOMER: And it includes his 9 per cent overhead.

MR. CHAMBERS: No it does not include the percentages.

DR. BOOMER: It does not include the going value?

MR. CHAMBERS: No.

MR. HARVIE: Does it include meters?

MR. CHAMBERS: No, no meters.

MR. BLANCHARD: It includes 10 per cent contractor's profit.

MR. HARVIE: Oh yes that is included.

Q Mr. Donellan, in the comparison you made in your Exhibit, you did include Hill's going value?

A No, it is exclusive. I had nothing for going concern value.

Q What is that?

A I used that figure of mine, on Exhibit 2(C). . . . .

Q No, but in checking against Hill's figure, did you include Hill's figure of a portion of the going value?

A No, what I term my "short statement on comparison", I used a pro rata share of the 200,000.

Q That is in Exhibit 102(B)?

A Yes.

Q Well now then, Mr. Donellan, Exhibit 102, which is Volume 2, and then there is also Exhibit 102(A) and Exhibit 113, as I understand it they deal with the high pressure lines, is that right, I just want to get it on the record to know where to look for these things, Exhibit 102 at page 8, Exhibit 102(A) pages 12, 20 and 22 and Exhibit 113(A), page 13, they deal with the capital cost of the high pressure lines, is that right?

THE CHAIRMAN: Page 8 of Volume 2 and what have you in Exhibit 102(A)?

MR. CHAMBERS: In Exhibit 102(A), pages 12, 20 and 22.

MR. HARVIE: Exhibit 102 is supplement 1, is it not?

THE CHAIRMAN: That is Exhibit 102(A).

WITNESS: It is Exhibit 102(A).

Q MR. CHAMBERS: That is Exhibit 102(A) and Exhibit 113(A), which is Volume 3, Supplement 1, page 13, deals with the same situation, that deals with the capital expenditures of the high pressure lines which are dealt with on those pages.

DR. BOOMER: Mr. Chambers, is it Volume 3, Exhibit 113?

MR. CHAMBERS: Exhibit 113(A), which is Volume 3, Supplement 1, at page 13.

WITNESS: It is on Supplement 1 of Volume 3.

THE CHAIRMAN: And that is Exhibit 113(A), page 13.

MR. CHAMBERS: That is correct.

Q MR. CHAMBERS: But for the purposes of our discussion, I am going to refer you to Exhibit 102, page 8; now the first item there 55,350 feet 4 inches of 8-5/8 inch pipe, $54,791.17, now can you tell me whether that pipe, whether that refers to new pipe or not?

A I cannot tell you that. That was the invoice.

Q This is the pipe which went into the new high pressure lines.

A Yes, it went into the high pressure lines but we were not able to buy all new pipe, some of it had to be second hand.

Q Can you tell me the weight of that pipe?

A Not now. I will have to look it up.

Q All right. Now my computation shows that the unit costs there were set out at 98.98 cents per foot or roughly, say, 99 cents a foot.

MR. HARVIE: Is that the 8-5/8ths inch?

MR. CHAMBERS: The 8-5/8ths inch I am talking about, the first item.

MR. HARVIE: That is Mr. Hill's unit costs.

MR. CHAMBERS: No, your figure on this page.

Q MR. CHAMBERS: Now I am assuming that that item does not include duty or freight, is that right?

A I would say "no".

Q Yes. Now my understanding is that according to Mr. Hill's Exhibit 59, which is the statement of unit costs, the 28 pound pipe, and that is a heavy pipe as I understand it, of the size laid-down-cost at Turner Valley is 2.05, rather 2.057

dollars and that the other weight, the lighter weight of the 16-2/3 pound pipe has a laid-down-cost of 1.40.

A That is right.

Q Including duty and freight. Now following your page 8 of Exhibit 102, a little further and assuming that that first figure does not include duty and freight, the figure $54,791.17, we come down to the separate items there "duty, $26,394.03; freight, $29,288.39." and the total of those two items is $55,682.42.

A Yes.

Q And I am just making a rough computation there, I am pro rating that figure between the values of the pipe shown above, you see.

A Yes.

Q And I get a unit price of 1.94 for the 8-5/8ths inch pipe inclusive of the cost of the pipe, the duty and the freight.

A Yes, I see.

Q And as I said before, the 28 pound pipe, according to Mr. Hill's unit figure, was 2.057.

A Yes, 2.057.

Q And the lighter, the 16-2/3 inch, 1.40.

A Yes.

Q Now it might be of some benefit to the Board, I suggest, if we could get some idea as to the weight.

A I will have the details of that weight and a break-down of the duty and freight prepared.

Q And also whether it was new or second hand.

A New or second hand.

Q And the same situation might apply to the other one too, but I am not going to go further into the figures now.

A They would likely be the same, all the pipe concerned on that schedule.

MR. CHAMBERS: Yes, and perhaps that is a good place to stop for me.

THE CHAIRMAN: Quite, but before we do adjourn I would like to know where we stand with Mr. Donellan, - as I understand it, he is going back to Toronto tomorrow night.

MR. CHAMBERS: I do not expect to be more than half an hour, if that.

THE CHAIRMAN: Will you have much re-examination, Mr. Harvie?

MR. HARVIE: Some, but I think some of it has been cleared up as we have gone along. I think I might take an hour.

THE CHAIRMAN: On re-examination?

MR. HARVIE: Yes.

THE CHAIRMAN: How about you, Mr. Blanchard?

MR. BLANCHARD: I do not think I have any more.

THE CHAIRMAN: Then it is within the bounds of possibility that the Board might take half an hour. In that case in order to let Mr. Donellan get away, would you object to sitting for an hour or so in the afternoon tomorrow?

MR. HARVIE: We would be very glad if that could be arranged.

THE CHAIRMAN: I would not be surprised if he would be coming back some time later.

MR. HARVIE: You mean Mr. Donellan?

THE CHAIRMAN: That Mr. Donellan will be coming back.

MR. HARVIE: I think he will, but I think we should get this phase of it finished if possible.

MR. CHAMBERS: Is there any chance of Mr. Stevens-Guille getting on tomorrow?

THE CHAIRMAN: Mr. Harvie says he will take an hour and supposing we give you half an hour and the Board takes a half an hour, that makes two hours and then double it. All right, we will adjourn now.

(At this stage the Hearing was adjourned until 9.30 A.M. 20th September, 1945.)

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Mr. CHAPPY: Is there any chance of Mr. Stevens
could testing on tomorrow?

THE CHAIRMAN: Mr. Harris says he will take
an hour and approximately give you half an hour and the Boa
taken a half an hour, that makes three hours and then possibly
All right, we will adjourn.

(At 3:15 p.m. the Hearing was adjourned until 4.30 A.M.
3 to Cont. Ben. Lgn.)